

Dated July 30, 1999



**NATIONAL CREDIT UNION ADMINISTRATION
YEAR 2000 QUARTERLY CONGRESSIONAL UPDATE**

As of June 30, 1999

Number of institutions which met the June 30, 1999, testing milestone date.

Ninety eight percent of all federally insured credit unions, representing 10,585 credit unions and 96% of assets, met the June 30th testing milestone. There were 222 credit unions, representing 2.05% of all federally insured credit unions and 4.5% of assets, which did not meet this milestone. Many of the credit unions which did not complete testing by June 30, have subsequently completed testing. As of Thursday, July 28, only 56 credit unions, representing .5% of assets had not completed testing.

By July 31, NCUA expects credit unions to have substantially implemented mission critical systems. As of July 28, 99.3% of credit unions were either completed with implementation or substantially implemented.

With the exception of one, all corporate credit unions have completed implementation. The remaining corporate credit union has 2 non-implemented systems and is expected to complete implementation by August 31. This credit union is considered to be substantially implemented. All corporate credit unions are rated "satisfactory" and have liquidity and business resumption contingency plans in place.

Process by which NCUA measured compliance with the June 30th milestone.

Measurement of the June 30 milestone date began in March with our Phase III¹ program. In addition to progress on contingency planning and implementation efforts, examiners focused on credit unions' ability to complete testing by June 30. Field staff provided an updated weekly assessment of credit unions for the month of June, and daily during the last three days of June. Our onsite Year 2000 examination hours for the month of June are 18,909 bringing our year-to-date Year 2000 onsite examination hours to 93,920.

Regional staff reviewed, assessed, and responded to each assessment, and reported the results to Central Office staff. Each assessment was then subjected to a second level of review and assessment by Central Office staff. A similar process is in place for the July 31, substantial implementation milestone.

Our Phase III Program mandates an onsite contact by July 31, for any credit union rated "unsatisfactory" or "needs improvement." Credit unions rated "unsatisfactory" must receive a monthly onsite contact thereafter. Those credit unions rated "needs improvement" must receive a monthly onsite or off-site contact.

In addition, credit unions provide NCUA with a quarterly assessment. The results of the June 30 Quarterly Report cycle were recently received by Central Office staff and are currently being reviewed and compared to the examiner assessment.

¹ As of 3/31/99, NCUA examiners have been conducting Phase III contacts during which implementation efforts, business resumption planning, liquidity funding contingency planning, contingency planning, member communications and final testing efforts are reviewed. This program mirrors the Phase III programs being conducted by the other FFIEC agencies.

Relationship between Risk Ratings and Year 2000 remediation efforts.

Those credit unions which did not meet the June 30 testing milestone and did not complete testing by July 2, received either an administrative action or a waiver of administrative action, based on individual circumstances and the credit union's ability to meet future milestone dates. Of the 142 credit unions which were not completed with testing on July 2, waivers of administrative action were given to 86 credit unions and 56 credit unions received administrative action. The administrative actions largely consisted of regional director letters identifying weaknesses and directing the board of directors to address those weaknesses within a specified timeframe.

When the risk rating is compared to the June 30 milestone, 59 of the 142 credit unions not tested as of July 2, were rated "unsatisfactory," 3 were rated "needs improvement," and 80 were rated "satisfactory."²

As of June 30, 1.4% of credit unions were rated "unsatisfactory" (158 credit unions), .51% were rated "needs improvement" (54 credit unions), and 98.03% were rated "satisfactory" (10,595).

Of the 158 credit unions rated "unsatisfactory," 59 failed to meet the June 30 testing milestone; 48 of which have administrative actions, 11 of which have waivers of administrative action.

Any credit union rated less than "satisfactory" will receive an onsite contact by July 31. Credit unions rated "unsatisfactory" will receive monthly onsite contacts, and those rated "needs improvement" will either receive monthly on or off-site contacts. The degree of subsequent administrative action will increase in severity. Those credit unions under a waiver who miss supervisory-imposed action deadlines will lose their waiver status and receive administrative action.

Actions planned for the rest of the year.

Currently we are assessing credit unions' compliance with the July 31 substantial implementation milestone using the same intensive review process utilized to assess compliance with the June 30 milestone. We have collected weekly updates throughout July and have been receiving daily updates this week, all of which are reviewed by regional and central office staff.

We will continue Phase III contacts. Follow-up supervisory action will occur in credit unions requiring additional attention. We will continue to review business resumption plans, liquidity plans, and contingency plans.

² An example of a credit union which missed the June 30 milestone, yet was considered to be "satisfactory," would be an instance where remaining testing issues were minor, or outside the control of the credit union, and appropriate contingency plans were in place to address the testing issues.